



February 2015

# DEFENSE BUSINESS TRANSFORMATION

DOD Has Taken  
Some Steps to  
Address Weaknesses,  
but Additional Actions  
Are Needed

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# GAO Highlights

Highlights of [GAO-15-213](#), a report to congressional committees

## Why GAO Did This Study

DOD spends billions of dollars each year to maintain key business functions intended to support the warfighter. While DOD maintains military forces with unparalleled capabilities, it continues to confront decades-old management weaknesses related to its business functions that support these forces. GAO designated DOD's approach to business transformation as high-risk in 2005 because DOD had not taken steps to achieve and sustain business reform on a strategic, department-wide basis.

This report identifies the extent to which (1) DOD has addressed business transformation weaknesses and (2) the Office of the DCMO has effectively monitored the progress of its business transformation efforts. GAO reviewed documentation, such as DOD's Fiscal Year 2014-2015 Strategic Management Plan and performance measures established for its business functions. GAO also interviewed officials responsible for DOD's business transformation efforts.

## What GAO Recommends

GAO recommends that the CMO and DCMO document and communicate priorities for DOD's business transformation efforts and oversee the development of a correction action plan. GAO also recommends that the DCMO develop clear and comprehensive performance measures that are aligned with strategic goals to monitor the progress of its business transformation efforts. DOD concurred with GAO's recommendations.

View [GAO-15-213](#). For more information, contact Zina D. Merritt at (202) 512-5257 or [merrittz@gao.gov](mailto:merrittz@gao.gov).

February 2015

## DEFENSE BUSINESS TRANSFORMATION

### DOD Has Taken Some Steps to Address Weaknesses, but Additional Actions Are Needed

## What GAO Found

Department of Defense (DOD) senior leadership—specifically the Chief Management Officer (CMO) and the Deputy Chief Management Officer (DCMO)—have taken some steps to address business transformation weaknesses, such as establishing management responsibilities and issuing an updated Strategic Management Plan to provide a strategy for business transformation. However, DOD senior leadership has not implemented leading performance management practices for federal agencies to help ensure additional progress. For example, DOD's CMO and DCMO have not communicated priorities for its business goals or overseen the development of a corrective action plan that outlines the root causes hindering progress in its business transformation efforts and the solutions needed to address them. A provision in the Carl Levin and Howard P. "Buck" McKeon National Defense Act for Fiscal Year 2015 to convert the DCMO to the Under Secretary of Defense for Business Management and Information in February 2017 will assist the Deputy Secretary of Defense in his role as the CMO by providing greater authority to supervise management of business operations and help, among other things, DOD further demonstrate its commitment to addressing business transformation efforts. However, without the implementation of these leading practices, DOD will continue to face challenges in addressing its business transformation weaknesses, such as its continued use of outdated processes and systems for key business functions, such as financial management and logistics.

The Office of the DCMO has collected some performance information to satisfy government-wide requirements, but has not effectively monitored the progress of DOD's business transformation efforts. For example, DOD's performance measures are not clear, comprehensive, or aligned with its strategic goals, all of which are key attributes for such measures, and Office of the DCMO officials stated that its performance measures are not effective in monitoring progress toward meeting strategic goals. In addition, the Office of the DCMO conducted a high-level assessment of its personnel as part of its 2014 reorganization to determine their placement within its office based on input and work experience, but Office of the DCMO officials have not fully assessed the skills of its personnel to determine whether critical gaps to effectively monitor performance exist. Office of the DCMO officials acknowledged that while its assessment served as a baseline for training needs, a more comprehensive analysis is needed to identify specific skill gaps. In May 2013, GAO recommended that the DCMO develop a comprehensive plan to address identified gaps as part of a strategic approach to human capital planning. DOD did not concur with the recommendation, stating that the Office of the DCMO is a relatively small DOD component and the recommended action was designed for an entire agency. GAO disagreed and continues to believe that the 2014 reorganization provided an opportunity to undertake a more complete assessment. Until the Office of the DCMO develops new performance measures and implements GAO's May 2013 recommendation on determining whether it has personnel with the appropriate skills to effectively monitor performance, the Office of the DCMO will be hindered in assessing progress made by its business transformation efforts.

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**Abbreviations**

CMO	Chief Management Officer
DBC	Defense Business Council
DCMO	Deputy Chief Management Officer
DHS	Department of Homeland Security
DMAG	Deputy's Management Action Group
DOD	Department of Defense
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
QDR	Quadrennial Defense Review

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February 11, 2015

## Congressional Committees

The Department of Defense (DOD) spends billions of dollars each year to maintain key business functions intended to support the warfighter.<sup>1</sup> While DOD maintains military forces with unparalleled capabilities, it continues to confront pervasive, decades-old management weaknesses related to its business functions—including outdated processes and systems—that support these forces.<sup>2</sup> DOD's approach to business transformation is inextricably linked to DOD's ability to perform its overall mission, directly affecting the readiness and capabilities of U.S. military forces.

In 2005, we designated DOD's approach to business transformation as high risk because DOD had not taken the necessary steps to achieve and sustain business reform on a broad, strategic, department-wide, and integrated basis.<sup>3</sup> Overall, our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical services to the public. Since our program began, the government has taken high-risk problems seriously and has made long-needed progress toward correcting them.

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<sup>1</sup>DOD considers the following areas to be its business functions: financial management, acquisition, defense security enterprise, installations and environment, logistics, human resources and health care management, security cooperation, and enterprise information technology infrastructure.

<sup>2</sup>Our prior body of work on DOD business transformation, dating back to 2005, has identified weaknesses associated with DOD's business transformation efforts. For example, we found weaknesses including DOD's inability to address acquisition inefficiencies, develop a reliable and comprehensive inventory of all defense business systems, and improve management and accountability of DOD's business functions, among other things. See for example, GAO, *Defense Management: Key Elements Needed to Successfully Transform DOD's Business Operations*, [GAO-05-629T](#) (Washington, D.C.: Apr. 28, 2005); GAO, *Organizational Transformation: Implementing Chief Operating Officer/Chief Management Officer Positions in Federal Agencies*, [GAO-08-34](#) (Washington, D.C.: Nov. 1, 2007); and GAO, *Defense Business Transformation: Improvement Made but Additional Steps Needed to Strengthen Strategic Planning and Assess Progress*, [GAO-13-267](#) (Washington, D.C.: Feb. 12, 2013).

<sup>3</sup>GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: Jan. 2005).



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We define the scope of this high-risk area as encompassing the activities of the Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO) in engaging with responsible leaders to influence and provide oversight of business transformation efforts across DOD's business functions, and result in demonstrated and sustained progress.<sup>4</sup> DOD's historical approach to business transformation has not proven effective in achieving meaningful and sustainable progress in a timely manner. For example, in February 2013, we found that DOD had not established clear and specific management responsibility, accountability, and control over business transformation related efforts and applicable resources across its business functions.<sup>5</sup> In February 2013, we also found that DOD did not have an integrated plan for business transformation with specific goals, measures, and accountability mechanisms to monitor performance and achieve progress.<sup>6</sup> In August 2014, we also provided DOD with a letter outlining 13 actions and outcomes that we believe it should take to address long-standing weaknesses in its business transformation efforts, including ensuring that the Office of the DCMO has the capacity to collect accurate, useful, and timely performance data. We have identified long-standing issues that affect all of DOD's business functions and, as a result, determined during subsequent updates to GAO's High-Risk List that this area remains high risk.<sup>7</sup> DOD devotes billions of dollars each year to maintain its business functions, and any failures of these functions can affect national security and DOD's ability to meet its missions.

We initiated this review under the authority of the Comptroller General to address issues of broad interest to the Congress, with an emphasis on

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<sup>4</sup>We define business transformation efforts as actions taken by DOD to increase the efficiency of DOD business function programs, or to decrease costs associated with these programs. These efforts include consolidating business systems, or decreasing acquisition costs across DOD. Other DOD areas on GAO's High-Risk List span several of the department's business functions and are thus interrelated with DOD's business transformation efforts. These areas include: support infrastructure management, financial management, weapon system acquisition, contract management, supply chain management, and business systems modernization.

<sup>5</sup>See [GAO-13-267](#).

<sup>6</sup>We recommended, among other things, that DOD define its performance management approach and better develop its plan for business transformation. DOD generally concurred with our recommendations.

<sup>7</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: Feb. 14, 2013).



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longer-range and transformational issues. This report determines the extent to which (1) DOD has taken steps to address DOD's business transformation weaknesses, and (2) the Office of the DCMO has effectively monitored the progress of its business transformation efforts.

To determine the extent to which DOD has taken steps to address business transformation weaknesses, we reviewed policies and guidance for CMO and DCMO responsibilities and assessed whether policies and guidance are being implemented. In addition, we reviewed and assessed DOD's progress on meeting all five criteria for removing DOD's approach to business transformation from GAO's High-Risk List. This information can be found in GAO's 2015 High-Risk Update.<sup>8</sup> We also identified leading performance management practices for federal agencies and compared those to current practices at DOD for its business transformation efforts.<sup>9</sup> We reviewed the charter and agendas of the Defense Business Council (DBC) from calendar years 2013 and 2014 to determine the extent to which the CMO and DCMO discussed performance across DOD's business functions since our previous 2013 report on DOD's approach towards business transformation. Additionally, we researched and identified other agencies that had a CMO or Under Secretary for Management to identify leading practices in implementing these positions. From this, we selected the Department of Homeland Security (DHS) to include in our review because it (1) faced similar management challenges to DOD and (2) had an Under Secretary of Management. We examined the extent to which DHS implemented leading performance management practices for federal agencies to narrow the number of issues in its high-risk areas. We did not directly compare DOD to DHS, as the agencies differ in terms of mission, size, and structure, among other characteristics. Instead, we used examples from DHS to highlight efforts that agencies have made to address the criteria for removal from GAO's High-Risk List.

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<sup>8</sup>GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015). Agencies must meet the following five criteria to be removed from GAO's High-Risk List: (1) a strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures.

<sup>9</sup>See [GAO-08-34](#) and *Managing for Results: Data-Driven Performance Reviews Show Promise But Agencies Should Explore How to Involve Other Relevant Agencies*, [GAO-13-228](#) (Washington, D.C.: Feb. 27, 2013).

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To determine the extent to which the Office of the DCMO has effectively monitored the progress of its business transformation efforts, we reviewed performance measures for DOD's 13 Agency Priority Goals outlined on [performance.gov](http://performance.gov). We also obtained information on how these measures were determined and how they were being applied, and interviewed Office of the DCMO officials and those responsible for DOD's business functions to verify this information.<sup>10</sup> We compared DOD's performance measures to a subset of key attributes of successful performance that we selected based on the attributes used in our February 2013 business transformation report to assess DOD's performance measures for its business transformation efforts. We assessed these attributes to remain consistent with the methodology followed in 2013. This allowed us to gauge progress that has been made in improving these performance measures since our February 2013 report.<sup>11</sup> While these may not cover all key attributes of successful performance, we feel they are important for accurately assessing the strengths and weaknesses of performance measures. In addition, we interviewed Office of the DCMO officials and officials responsible for DOD's business functions about the progress made in monitoring its business transformation efforts. We also compared DOD's efforts to assess its capacity to monitor business transformation efforts with GAO's High-Risk List criteria for removal and leading performance management practices for federal agencies.

We conducted this performance audit from December 2013 to February 2015 in accordance with generally accepted government auditing

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<sup>10</sup>For the purposes of this review, other offices responsible for DOD's business functions include the Office of the Chief Information Officer; the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics; the Office of the Under Secretary of Defense for Personnel and Readiness; and the Office of the Under Secretary of Defense (Comptroller).

<sup>11</sup>See GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, [GAO-03-143](#) (Washington, D.C.: Nov. 22, 2002) and [GAO-13-267](#). GAO established criteria for developing performance measures by, among other steps, considering key legislation such as the Government Performance and Results Act of 1993. These criteria are applicable for all federal agencies to effectively assess overall program performance.

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standards.<sup>12</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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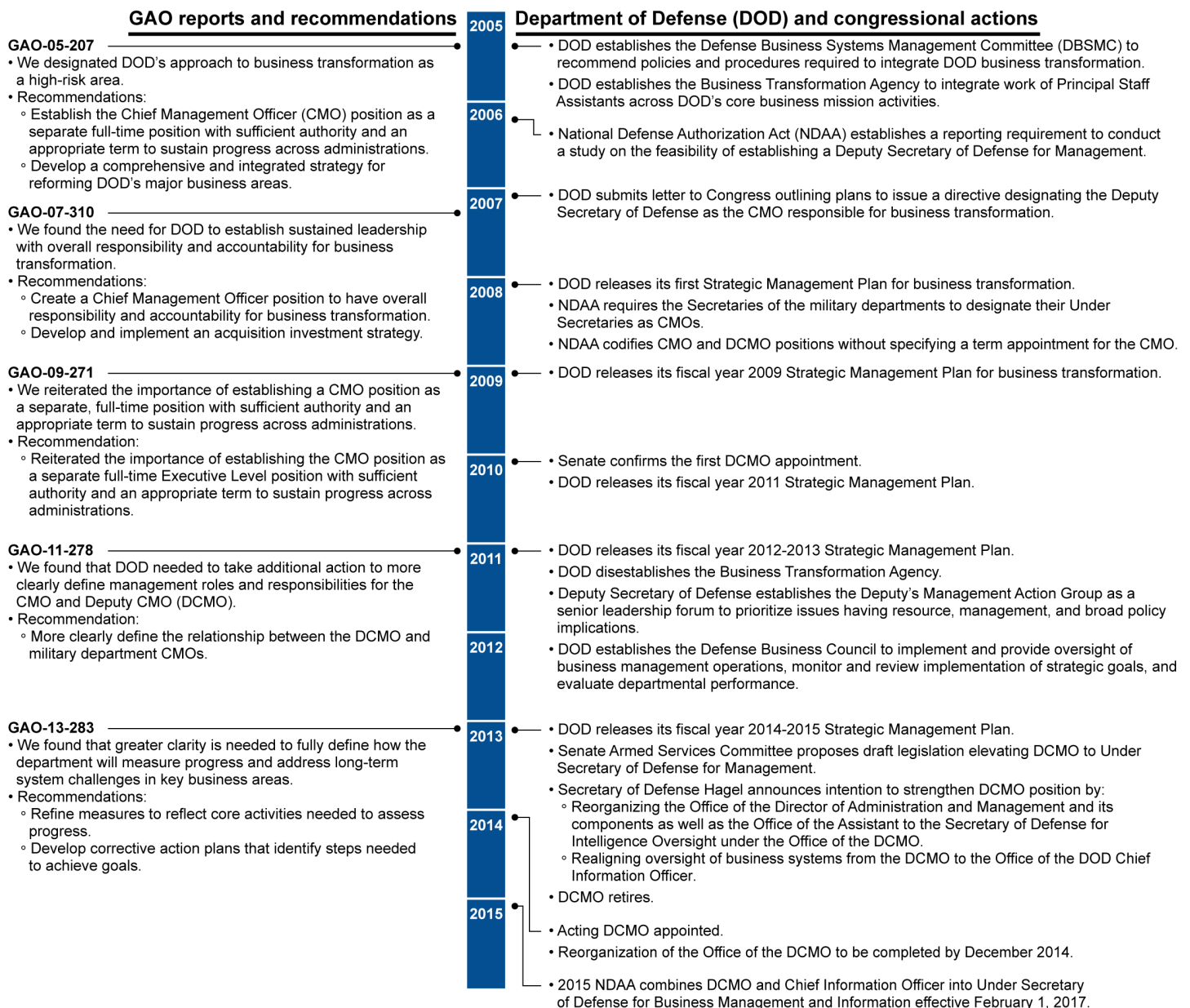
### Key Recommendations and Actions Related to Business Transformation since 2005

In addition to GAO's High-Risk Update every 2 years, we have issued several reports on DOD's approach to business transformation since 2005. DOD and Congress have also taken various actions related to this high-risk area. Figure 1 shows a timeline of our reports, including recommendations, as well as actions that DOD and Congress have taken.

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<sup>12</sup>On August 15, 2014, we provided DOD with a letter identifying 13 actions and outcomes needed to address its high-risk designation related to its business transformation efforts. These actions and outcomes include ensuring that the Office of the DCMO has the capacity to collect accurate, useful, and timely performance data and developing a corrective action plan.

**Figure 1: Timeline of Recommendations and Actions Related to Business Transformation**



Source: GAO analysis of DOD data and legislation. | GAO-15-213

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## The Role of DOD's CMO and DCMO

The CMO and DCMO have primary responsibilities set forth under statutes and department guidance related to improving the efficiency and effectiveness of operations across DOD's business functions. The CMO is responsible for ensuring that DOD's business functions are optimally aligned to support DOD's mission, and the DCMO is responsible for coordinating with officials in the Office of the Secretary of Defense, those responsible for DOD's business functions, and the military department CMOs through overseeing investment reviews, building analytic capabilities, and measuring performance.<sup>13</sup> Additionally, the CMO—who is also the Deputy Secretary of Defense—authorizes the DCMO as the Principal Staff Assistant to issue policy and guidance regarding matters relating to the management and improvement of DOD business operations. In December 2013, the Secretary of Defense also issued a memo that broadened the responsibilities of the Office of the DCMO to facilitate better coordination and integration of DOD's business operations.<sup>14</sup> Given these key responsibilities, our work on DOD's approach to business transformation focuses on CMO- and DCMO-led efforts to work with officials responsible for DOD's business functions. Effectively coordinating these functions is critical to aligning DOD's goals for improved business functions to achieve desired outcomes across the department. Table 1 summarizes the roles of the CMO and DCMO.

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<sup>13</sup>DOD Directive 5105.02, *Deputy Secretary of Defense* (May 5, 2014) and DOD Directive 5105.82, *Deputy Chief Management Officer of the Department of Defense* (Oct. 17, 2008) outline the responsibilities of the CMO and DCMO.

<sup>14</sup>Secretary of Defense Memorandum, *Results of the Office of the Secretary of Defense Organizational Review* (Dec. 4, 2013).

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**Table 1: Roles and Responsibilities of the Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO)**

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**Role of CMO**

Filled by the Deputy Secretary of Defense

- Ensure DOD's core business missions are optimally aligned to support DOD's warfighting mission
- Oversee the development of a department-wide Strategic Management Plan
- Chair the Deputy's Management Action Group, which is used to make cross-cutting departmental management decisions
- Improve DOD management and performance under the GPRA Modernization Act of 2010 (GPRAMA)

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**Role of the DCMO**

Currently filled by the Assistant DCMO

- Develop and maintain the defense business enterprise architecture, as well as integrate business operations
  - Issue DOD policy and guidance in instructions as assigned by the CMO
  - Advise the Secretary of Defense on performance goals and measures and assess progress against those goals
  - Co-chair the Defense Business Council (DBC), which oversees DOD's business functions and identifies business process improvements
  - Serve as the agency Performance Improvement Officer and assist the CMO in performance measurement and planning under GPRAMA
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Source: GAO analysis of DOD data and legislation. | GAO-15-213

Note: Data are from DOD Directives 5105.02 and 5105.82 and memorandums; 31 U.S.C. §1123; and 10 U.S.C. §§ 132 and 2222.

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**Government Performance and Results Act of 1993, GPRA Modernization Act of 2010, and Agency Performance Reviews**

In 1993, Congress passed the Government Performance and Results Act of 1993 (GPRA), which required federal agencies to develop strategic plans with long-term goals; performance plans with annual goals and measures; and performance reports on prior-year performance.<sup>15</sup> Congress subsequently amended GPRA with the GPRA Modernization Act of 2010 (GPRAMA), which includes several provisions intended to increase federal agencies' use of performance information to improve their performance and results.<sup>16</sup> Under GPRAMA, the Deputy Secretary of Defense, as CMO and Chief Operating Officer, is responsible for improving the management and performance of the agency. The DCMO serves as the agency Performance Improvement Officer under GPRAMA

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<sup>15</sup>Pub. L. No. 103-62 (1993).

<sup>16</sup>Pub. L. No. 111-352 (2011).

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and is to advise and assist the CMO in areas such as performance measurement and planning.<sup>17</sup>

GPRAMA also requires an agency head and Chief Operating Officer to conduct quarterly priority progress reviews.<sup>18</sup> Such top leadership involvement can foster ownership and help ensure that participants take the reviews seriously and that decisions and commitments can be made during a review session.<sup>19</sup> Specifically, agencies are required to assess how relevant programs and activities contribute to achieving agency priority goals; categorize goals by their risk of not being achieved; and, for those at risk, identify strategies to improve performance. GPRAMA also specifies that the reviews must occur on at least a quarterly basis and involve key leadership and other relevant parties both within and outside the agency.<sup>20</sup>

In addition to the requirements of GPRAMA, we also have identified nine leading practices for federal agencies to promote successful data-driven performance reviews—also referred to as quarterly performance reviews—at the federal level.<sup>21</sup> These leading practices include the following:

- Agency leaders use data-driven reviews as a leadership strategy to drive performance improvement.
- Key players attend reviews to facilitate problem solving.
- Reviews ensure alignment between agency goals, program activities, and resources.

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<sup>17</sup>See Pub. L. No. 111-352 (2011) and DOD Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).

<sup>18</sup>See Pub. L. No. 111-352 (2011) (codified at 31 U.S.C. § 1121).

<sup>19</sup>[GAO-13-228](#).

<sup>20</sup>Although the law refers to them as “quarterly priority progress reviews,” agencies may conduct these reviews on a regularly occurring basis that is more frequent than quarterly. GPRAMA requires these reviews to be conducted by an agency head and Chief Operating Officer, among other provisions.

<sup>21</sup>[GAO-13-228](#).



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- Agency leaders hold managers accountable for diagnosing performance problems and identifying strategies for improvement.
  - Agency has capacity to collect accurate, useful, and timely performance data.
  - Agency staff has skills to analyze and clearly communicate complex data for decision making.
  - Rigorous preparations enable meaningful performance discussions.
  - Reviews are conducted on a frequent and regularly scheduled basis.
  - Participants engage in rigorous and sustained follow-up on issues identified during reviews.

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## Governance Structures

DOD has established governance structures to help monitor progress of its business transformation efforts, such as the Deputy's Management Action Group (DMAG) and the Defense Business Council (DBC). DOD established the DMAG in 2011 as the Deputy Secretary of Defense's principal forum for making cross-cutting department management decisions.<sup>22</sup> The DBC was established in October 2012 to, among other things, review performance results to track performance goals. The DBC is co-chaired by the DCMO and DOD's Chief Information Officer.<sup>23</sup> The DCMO chartered the DBC to provide "unified direction and leadership among DOD's functional areas and Components to synchronize actions across business areas and end-to-end processes and empower cross-

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<sup>22</sup>See Deputy Secretary of Defense Memorandum, *Management Process for the Deputy Secretary of Defense* (Oct. 11, 2011).

<sup>23</sup>Deputy Chief Management Officer Memorandum, *Defense Business Council* (Oct. 18, 2012) and charter revised by Office of the Secretary of Defense Memorandum, *Defense Business Council* (Dec. 10, 2014). DBC members are: DCMO; DOD Chief Information Officer; Under Secretary of Defense for Acquisition, Technology and Logistics; Under Secretary of Defense for Policy; Under Secretary of Defense (Comptroller)/Chief Financial Officer, DOD; Under Secretary of Defense for Personnel and Readiness; Under Secretary of Defense for Intelligence; Director, Cost Assessment and Program Evaluation; Joint Staff; Department of the Army, Deputy Chief Management Officer; Department of the Army, Chief Information Officer; Department of the Navy, Deputy Chief Management Officer; Department of the Navy, Chief Information Officer; Department of the Air Force, Deputy Chief Management Officer; and Department of the Air Force, Chief Information Officer.

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functional, collaborative action to optimize DOD business operations and promote cost transparency.” The charter specifically assigns the DBC responsibility for supporting the identification and development of business priorities for incorporation into relevant plans and policies and for overseeing performance management throughout DOD. The DBC, which is more narrowly focused and more responsible for improving the performance of DOD’s business functions than the DMAG, can provide recommendations to the DMAG as necessary, as DOD works towards improving the performance of its business functions.<sup>24</sup>

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**DOD Senior Leadership Has Taken Some Steps to Address Business Transformation Weaknesses but Has Not Consistently Implemented Leading Performance Management Practices for Federal Agencies to Help Ensure Progress**

DOD senior leadership—specifically the CMO and DCMO—has taken some steps to address business transformation weaknesses, but has not consistently implemented several leading performance management practices for federal agencies to help ensure additional progress in addressing those weaknesses. For example, the CMO and DCMO have not documented or communicated priorities to help ensure progress towards addressing business transformation weaknesses. In addition, until March 2014, the DCMO had not used the DBC governance structure to regularly discuss and hold responsible officials accountable for progress toward business goals. Finally, the CMO and DCMO have not overseen the development of a corrective action plan—one of the five criteria for an area to be removed from GAO’s High-Risk List—to help ensure they and officials responsible for DOD’s business functions address existing weaknesses.

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<sup>24</sup>The Deputy Secretary of Defense Memorandum, *Framework for the Deputy’s Management Action Group* (May 23, 2014) provided a new framework for the DMAG and established an Executive Secretariat to ensure the effective prioritization of DOD resources, management, and broad strategic or policy implications, or both.

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## DOD Senior Leadership Has Taken Some Steps to Address Business Transformation Weaknesses

DOD senior leadership has taken some steps to address some business transformation weaknesses that we identified in our prior work, resulting in DOD partially meeting two of the high risk criteria, leadership commitment and capacity. In February 2013, we found that the CMO issued directives broadly outlining the responsibilities of the CMO and DCMO, and the DCMO issued an updated Strategic Management Plan to provide a strategy for business transformation.<sup>25</sup> Since then, the Secretary of Defense issued a December 2013 memorandum to reorganize the Office of the DCMO by consolidating management activities from the Office of the Director of Administration and Management into the Office of the DCMO, and by reassigning responsibility for the department's business systems to DOD's Chief Information Officer.<sup>26</sup> The Secretary of Defense also issued accompanying memorandums outlining broad steps for implementation of this reorganization that acknowledged the need for improved oversight of DOD's business areas.

In July 2014, the Deputy Secretary of Defense issued a memorandum approving the consolidation of the Office of the Director of Administration and Management and the Office of the Assistant to the Secretary of Defense for Intelligence Oversight into the Office of the DCMO, and approved the realignment of designated functions and resources.<sup>27</sup> As part of this reorganization, Office of the DCMO officials stated that they are planning to conduct Business Process and System Reviews for defense agencies and other offices within the Office of the Secretary of Defense to determine the extent to which cost savings and efficiencies can be achieved within these organizations. According to Office of the DCMO officials, the reviews are underway and there is no set deadline for completion.

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<sup>25</sup> [GAO-13-267](#).

<sup>26</sup> See Secretary of Defense Memorandum, *Results of the Office of the Secretary of Defense Organizational Review* (Dec. 4, 2013). DOD's Chief Information Officer has now been assigned with the responsibility of monitoring and evaluating the performance of DOD information technology investments through applicable performance measures and advising the Secretary of Defense and other responsible stakeholders on whether to continue or terminate such investments, among other responsibilities.

<sup>27</sup> See Deputy Secretary of Defense Memorandum, *Reorganization of the Office of the Deputy Chief Management Officer* (July 11, 2014).

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Additionally, in October 2014, Office of the DCMO officials stated that they were in the process of replacing the Strategic Management Plan with an agency strategic plan which will lay out a strategy for addressing business transformation weaknesses and identifying cost savings and efficiencies across DOD. In December 2014, the Office of the DCMO provided us with an outline of its agency strategic plan, which at the time was under development, but Office of the DCMO officials stated that they expect this plan to be finalized in February 2015. Based on our review of the outline, the agency strategic plan will provide a high-level strategy for addressing DOD's business operation weaknesses, but may not include all of the elements of a corrective action plan such as identifying the root causes of each business operation weakness, timelines for implementing corrective actions, specific personnel designated and responsible for implementing corrective measures, and identifying trade-offs for corrective actions taken. The Office of the DCMO has also developed a portfolio-based investment management process for its business systems called the Integrated Business Framework. According to DOD, this framework is expected to help better align DOD's business system investments with the guiding principles established by DOD to enable the department to strengthen efforts to identify costs associated with the operations of its business functions, and make cost reductions for these functions a priority. Furthermore, to assist DOD in its oversight of business transformation efforts, Congress passed and the President enacted a provision in the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 to convert the DCMO to the Under Secretary of Defense for Business Management and Information.<sup>28</sup> This new position, to begin in 2017, is expected to provide greater authority to supervise management of business operations and help, among other things, DOD further demonstrate its commitment to addressing business transformation efforts.

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<sup>28</sup>See Pub. L. No. 113-291, § 901 (2014).

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DOD Senior Leadership  
Has Not Consistently  
Implemented Leading  
Performance Management  
Practices for Federal  
Agencies to Help Ensure  
Progress toward  
Addressing Business  
Transformation  
Weaknesses

Priorities

DOD senior leadership has not documented or communicated priorities for its business functions to help achieve progress toward addressing business transformation weaknesses. We found that there has been significant turnover of the CMO and DCMO as well as within the Office of the DCMO in recent years that may have contributed to the absence of documented business transformation priorities. Leading performance management practices for federal agencies state that documenting and communicating priorities is critical to ensure stakeholders have a clear understanding of the goals and direction of the organization. This can ultimately lead to improving performance.<sup>29</sup> Additionally, DOD Directive 5105.02 states that DOD's CMO shall, among other things, be responsible for overseeing and improving DOD management and performance.<sup>30</sup> Since 2007, there have been four CMOs with responsibilities for overseeing business transformation efforts. Also, since 2010, there have been one DCMO and two acting DCMOs with responsibilities for overseeing business transformation efforts. Additionally, in May 2014, the Office of the DCMO's Director of the former Planning and Performance Management Directorate resigned from his position and there has not yet been a permanent replacement assigned to the position.<sup>31</sup> While federal agencies experience turnover in senior-level executive positions, we found that DHS has adopted leading performance management practices for federal agencies to help ensure its

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<sup>29</sup>[GAO-13-228](#).

<sup>30</sup>Department of Defense Directive 5105.02, *Deputy Secretary of Defense*.

<sup>31</sup>The former Planning and Performance Management Directorate has been renamed as the Planning Performance and Assessment Directorate.

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organizational priorities are documented and communicated. For example, in January 2011, DHS issued its initial management plan, the *Integrated Strategy for High Risk Management*, which includes key management initiatives and related corrective action plans for addressing its management challenges and addressing the weaknesses we identified as part of GAO's high-risk work.<sup>32</sup> Since issuing this plan, DHS has provided regular updates of the plan to update stakeholders on the agency's progress in implementing various management initiatives. In addition, DHS developed a web page in February 2014 to provide a single access point for communicating progress in achieving goals to all business functions. DHS officials stated that their integrated strategy and frequent meetings helped business functions continue to work towards meeting established goals. Further, DHS stated in its 2014 *Integrated Strategy for High Risk Management* that the efforts taken to develop an integrated strategy to ensure the department has a clear, well-defined plan for addressing its high-risk area, helped it narrow the number of issues identified as part of GAO's high-risk work.<sup>33</sup>

Office of the DCMO officials told us that they expect to communicate priorities in February 2015 as part of their agency strategic plan. However, officials responsible for DOD's business functions stated they had not received any guidance on establishing priorities for the new agency strategic plan. Providing guidance to DOD's business functions is an important step in ensuring that these business functions develop appropriate plans and implement applicable efforts to meet DOD priorities. Until DOD's CMO and Office of the DCMO documents its business transformation priorities and communicates these priorities to the officials responsible for DOD's business functions, it will be more difficult for the department to make anticipated progress in its business transformation efforts.

## Accountability Mechanisms

Until March 2014, the DCMO has not used the DBC—one of DOD's key governance structures for overseeing its business operations—to hold officials accountable for progress toward meeting its department-wide business goals, including addressing the business transformation

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<sup>32</sup>Department of Homeland Security, *DHS Integrated Strategy for High Risk Management, Report to the Government Accountability Office* (January 2011).

<sup>33</sup>Department of Homeland Security, *DHS Integrated Strategy for High Risk Management* (March 2014).

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weaknesses we have identified. According to leading performance management practices for federal agencies, requiring performance meetings be conducted on a frequent and regularly scheduled basis can help promote and improve agency performance as officials address performance deficiencies and ensure accountability for results.<sup>34</sup> We found that of the 20 DBC meetings held in 2013, 5 discussed performance management, including measures and progress, related to DOD's business goals. Seventeen meetings held in 2013 generally focused on efforts to modernize DOD's business systems. According to Office of the DCMO officials, the office is legally required to ensure DOD is meeting requirements for its business systems, and thus its focus over the last few years has been on reviewing progress toward modernizing DOD business systems rather than assessing the progress of the department's business functions more broadly.<sup>35</sup>

DHS, which has faced a number of weaknesses in its business functions, took steps to ensure that the Deputy Secretary engages with officials responsible for the department's lines of business on a monthly basis to provide consistent senior-level oversight to address management integration and performance issues. Among other things, DHS established standard operating procedures that call for the Deputy Secretary to be briefed at least monthly to ensure senior leadership is informed on progress made toward addressing GAO's High-Risk areas and that management is held accountable for producing results.

DOD's current CMO, who is also the Deputy Secretary of Defense, has brought an increased focus on business operations at DOD. In May 2014, DOD issued updated guidance to emphasize the DMAG's commitment to ensuring DOD continues to prioritize management decisions and identifying resources needed to accomplish DOD's business functions' efforts. Also, since March 2014, DBC meetings have been held more regularly and have begun focusing more heavily on the performance of DOD's business functions. We found that of the 13 DBC meetings held in 2014, more than half of them discussed performance as it relates to

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<sup>34</sup>[GAO-13-228](#).

<sup>35</sup>See 10 U.S.C. § 2222, which requires DOD to certify that any business system program that will have a total cost in excess of \$1,000,000 over the period of the current future-years defense program submitted to Congress complies with the business enterprise architecture and has undertaken appropriate business process reengineering, among other things.



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DOD's business transformation efforts. In addition, the DBC is to recommend certification of business systems investments and is also responsible, among other things, for improving the department's business activities and management structures under its revised December 2014 charter.<sup>36</sup> The revised charter also specifies that DBC meetings should be conducted on a biweekly basis.

## Corrective Action Plan

DOD senior leadership has not overseen the development of a corrective action plan to help officials responsible for DOD's business functions better understand the root causes hindering progress in its business transformation efforts and the solutions needed to address them. GAO's criteria for removal from the High-Risk List call for agencies to develop a corrective action plan that defines the root causes and solutions, and provides for substantially completing corrective measures in the near term.<sup>37</sup> Leading performance management practices also state that agency leaders must hold managers accountable for diagnosing performance problems and identifying strategies for improvement.<sup>38</sup> Office of the DCMO officials told us that they have not overseen the development of a department-wide corrective action plan because they believe that DOD's business functions, rather than the office, are responsible for the development and implementation of their own individual corrective actions plans. While we agree that DOD's business functions could develop their corrective action plans, as DOD's Office of the Under Secretary of Defense (Comptroller) has done for financial management, it is important that the Office of the DCMO also oversee the development of any such plans to help ensure corrective actions are appropriate and fully address identified shortfalls throughout the department.<sup>39</sup>

DHS, which experienced similar organizational transformation challenges over the past several years to those of DOD, established its first corrective action plan in 2011 to address its management challenges and

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<sup>36</sup>Office of the Secretary of Defense Memorandum, *Defense Business Council* (Dec. 10, 2014).

<sup>37</sup>[GAO-01-159SP](#).

<sup>38</sup>[GAO-13-228](#).

<sup>39</sup>DOD's Office of the Undersecretary of Defense (Comptroller) has developed financial improvement and audit readiness guidance, which has been used as a plan to assist DOD in addressing its financial management weaknesses and becoming audit ready.

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hold its leaders accountable for achieving performance results. Each chief executive for DHS's lines of business is also required to submit monthly action plans with projected dates for fully addressing each weakness identified as part of GAO's High-Risk work. In addition, the Deputy Secretary for Homeland Security convenes monthly meetings to discuss the latest report submissions and identify potential challenges to reaching stated goals.

Given its oversight responsibility for improving the efficiency and effectiveness of business operations throughout DOD, we believe that the Office of the DCMO could initiate and work with DOD's business function officials to develop and assess such plans. For example, the Office of the DCMO could help DOD's business functions identify roles and responsibilities across DOD for implementing corrective actions needed to address business transformation weaknesses. In addition, the office could assist DOD's business functions with developing goals and timelines needed to strengthen business transformation efforts and identifying specific activities needed to achieve progress, including trade-offs, priorities, and any sequencing needed to implement the initiatives, and could help leaders plan for and provide the resources needed to implement the corrective actions identified. Further, DOD's agency strategic plan, currently under development, could be used to identify goals and establish an accountability mechanism for the development of a department-wide corrective action plan in coordination with any individual corrective action plans prepared by DOD's business functions. Without such an accountability mechanism for achieving results in their business transformation efforts or a corrective action plan to address related weaknesses, the CMO and DCMO will not be able to effectively hold DOD's business functions accountable for achieving their goals.

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## The Office of the DCMO Collects Some Performance Information but Does Not Have Performance Measures with Key Attributes and Has Not Fully Assessed Its Capacity to Effectively Monitor Its Efforts

The Office of the DCMO collects some performance information related to its business transformation efforts; however, the Office of the DCMO does not have effective measures in place to assess progress toward DOD's strategic goals and has not effectively monitored the progress of its business transformation efforts. For example, the office does not have performance measures that are clear, comprehensive, or linked to strategic goals outlined in DOD's Quadrennial Defense Review (QDR). In addition, the office has not fully assessed the capacity needed to monitor its business transformation efforts.

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## The Office of the DCMO Collects Some Performance Information from DOD's Business Functions, but Its Performance Measures Do Not Include Several Key Attributes

The Office of the DCMO collects information from its business functions on 13 performance measures associated with the Agency Priority Goals, which are a subset of the performance goals from its agency performance plan that is required by GPRAMA for certain executive agencies.<sup>40</sup> These Agency Priority Goals are intended to reflect the highest priorities of the agency and are required to include ambitious targets that can be achieved within a 2-year period with existing resources as well as clearly defined quarterly milestones.<sup>41</sup> The 13 Agency Priority Goals' performance measures are outlined at [performance.gov](http://performance.gov), a website that the White House uses to provide performance-related information about federal agencies to the public.<sup>42</sup> The Office of the DCMO is also participating in a several-year pilot with the Office of Management and

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<sup>40</sup>31 U.S.C. § 1115.

<sup>41</sup>The Office of the DCMO also collects performance information from all of DOD's business functions using the 52 performance measures contained in the Strategic Management Plan. However, Office of the DCMO officials told us that the 13 Agency Priority Goals' measures are those that they currently use to assess performance. The Office of the DCMO summarized results for both sets of measures for the DBC in fiscal year 2013, and most recently briefed this information to the DBC in April 2014.

<sup>42</sup>See [www.performance.gov](http://www.performance.gov).

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Budget to develop a standardized federal data collection system with dashboard capabilities to monitor performance. According to DOD, this system should provide the office with tools to implement an effective management system.

In February 2013, we assessed DOD's progress in improving its measures along three of nine key attributes of successful performance.<sup>43</sup> These three attributes are the following:

- Clarity: measure is clearly stated and the name and definition are consistent with the methodology used to calculate it.
- Core program activities: measures comprehensively cover the activities that an entity is expected to perform to support the content of the program.
- Linkage: measure is aligned with division and agency-wide goals and missions and clearly communicated throughout the organization.

Furthermore, these attributes are important in establishing an effective set of performance measures that allows program managers to assess progress against goals over time. For example, a measure that is not clearly stated or has a definition that is not consistent with how it is calculated could confuse users and cause managers to think that performance was better or worse than it actually was. Similarly, measures that provide linkage with agency goals and missions are critical in demonstrating how an agency's day-to-day activities contribute to attaining agency-wide goals and missions. Likewise, measures that are not assessing the key programmatic activities of an agency—its core program activities—will hinder the ability of program managers and other stakeholders to assess progress and target the appropriate areas for improvement. As part of this review, we assessed DOD's 13 Agency

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<sup>43</sup>See [GAO-13-267](#) and [GAO-03-143](#). We assessed these three attributes to remain consistent with the attributes assessed in our February 2013 report on DOD's business transformation efforts. This allowed us to gauge progress that has been made in improving these performance measures since our February 2013 report. While these may not cover all key attributes of successful performance, we feel they are important for accurately assessing the strengths and weaknesses of performance. The remaining six attributes include measurable target, objectivity, reliability, limited overlap, balance, and government priorities. The absence of a particular attribute does not necessarily indicate that the measure is not useful; rather, it may indicate an opportunity for further refinement.

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Priority Goals' performance measures against these same three key attributes to assess what progress DOD had made in improving its performance measures and found that their measures did not consistently incorporate these attributes. For example:

- *Clarity.* Office of the DCMO officials and those responsible for DOD's business functions have cited difficulty in developing performance measures across its business goals using a consistent methodology. For example, officials with the Office of the Under Secretary of Defense for Personnel and Readiness stated that some performance measures are difficult to quantify and report. Office of the DCMO officials also noted that the information provided by the business functions is unclear and not consistently collected across all business functions. Based on our assessment of the 13 Agency Priority Goals' performance measures, the information these measures are collecting is unclear. For example, according to officials from the Under Secretary of Defense for Personnel and Readiness, it is difficult to quantify some measures and report on them, such as improving the agency's civilian hiring plans.
- *Core program activities.* Office of the DCMO officials and those responsible for DOD's business function cited difficulties in developing a set of performance measures that reflect all of the activities that DOD's business functions carry out. For example, officials in the Office of the Chief Information Officer, and the Under Secretary for Acquisition, Technology and Logistics acknowledged that the current performance measures are not useful because they do not reflect their programmatic activities and that reporting on them is instead a compliance drill rather than an assessment of performance. Office of the DCMO officials expressed similar concerns. These officials briefed the DBC on the performance measurement process in May 2013 and said the current measures do not include all of DOD's core program activities. Under Secretary of Defense for Personnel and Readiness officials stated that while some aspects of performance management seem to be a compliance drill, the measures used by the Office of the DCMO do reflect its day-to-day activities and operations, and are relevant. Based on our assessment of the 13 Agency Priority Goals' performance measures, these measures do not incorporate some of DOD's business functions, such as supply chain management and enterprise information technology infrastructure.
- *Linkage.* Office of the DCMO officials and those responsible for the acquisition, personnel, and financial management business functions also acknowledged that the 13 Agency Priority Goals' performance

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measures do not align with strategic goals outlined in DOD's 2010 Quadrennial Defense Review, DOD's most recent overarching defense strategy available at the time the performance measures were developed.<sup>44</sup> All of the officials responsible for business functions with whom we spoke cited challenges in developing measures that align both with the QDR and the President's annual budget. For example, officials from the Under Secretary of Defense for Acquisition, Technology and Logistics said that some of the measures used to gauge its program success, such as the accomplishments it has achieved by its demolition program, do not link to the goals in the QDR or the measures included in the Agency Priority Goals' performance measures.<sup>45</sup> See appendix II for the list of DOD's Agency Priority Goals and associated performance measures.

Office of the DCMO officials and those responsible for DOD's business functions have acknowledged that the 13 Agency Priority Goal performance measures do not effectively assess performance. The Office of the DCMO is in the process of developing new measures. Office of the DCMO officials said that they will continue to use the 13 Agency Priority Goals' performance measures until they develop new ones. Office of the DCMO officials started meeting with officials responsible for DOD's business functions over the summer 2014 to revise the existing measures for its new agency strategic plan. However, officials ended the planning meetings and did not indicate when the meetings would resume. Furthermore, according to several officials responsible for DOD's business functions, the Office of the DCMO has not provided them with guidance to develop new performance measures as of December 2014. Office of the DCMO officials stated that they expect to develop a more effective set of performance measures as they complete their Business System and Process Reviews. However, as noted earlier, while these reviews were initiated in September 2014, the time frame for completion remains uncertain. The Office of the DCMO could take specific actions to improve its process for monitoring the performance of its business transformation efforts. For example, the office could develop performance measures that ensure linkage between DOD goals, business function

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<sup>44</sup>Department of Defense, *Quadrennial Defense Review Report* (February 2010).

<sup>45</sup>Goals cited in DOD's 2010 QDR include: (1) prevail in today's wars, (2) prevent and deter conflict, (3) prepare to defeat adversaries and succeed in a wide range of contingencies, and (4) preserve and enhance the all-volunteer force.

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activities, and resources. The office could also ensure that the performance measures hold DOD's business functions accountable for providing needed input to assess progress. Until the Office of the DCMO works with DOD's business functions to develop performance measures that are clear, comprehensive, and aligned with DOD's strategic goals, it will be difficult for DOD to have all of the information necessary to measure progress in achieving its business goals.

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**The Office of the DCMO Conducted an Analysis of Workforce Skills but Has Not Fully Assessed the Capacity Needed to Collect and Analyze Performance Information**

The Office of the DCMO conducted a high-level assessment of its personnel in October 2014 as part of its reorganization to determine their placement within its office based on input and work experience. However, Office of the DCMO officials have not fully assessed the skills of its personnel to determine whether critical gaps exist for effectively monitoring DOD's business transformation efforts, specifically personnel with the skills needed to collect and analyze performance information. Prior to the reorganization, the Office of the DCMO had three full-time employees assigned to monitor its business transformation efforts. One of GAO's High-Risk criteria for removal is for agencies to have the capacity—people and resources—to resolve identified issues. Further, key practices for successful data-driven performance reviews identify that agency staff have skills to analyze and clearly communicate complex information for decision making.<sup>46</sup>

Office of the DCMO officials responsible for monitoring DOD's business transformation efforts acknowledged in July 2014 that they do not know whether the current personnel have all of the skills necessary to collect and analyze performance information in order to effectively monitor its business transformation efforts. For example, many of the personnel in this office have expertise in business systems and information technology, but few have expertise in strategic planning and performance management. After its analysis in October 2014, the Office of the DCMO increased personnel to monitor business transformation efforts from 3 to 16, but officials have not fully assessed how many of these personnel have the skills needed to collect and analyze performance information. Office of the DCMO officials acknowledge that while its analysis serves as a baseline assessment of the training needs of its personnel, a more

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<sup>46</sup>GAO-13-228.



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comprehensive and objective analysis of critical skills and competencies may be needed in the future.

DOD's annual strategic workforce plan requires it to report on the critical skills and competencies that will be needed in its future workforces.<sup>47</sup> We have previously found that having civilian personnel with relevant skills is critical to achieving DOD's mission, and that it is important for DOD to conduct gap analyses of its critical skills and competencies.<sup>48</sup> We concluded that doing so can help an agency align its human capital requirements and sustain the contributions of all its critical skills and competencies needed for the future. For example, in May 2013, we reviewed the DCMO's management of DOD's business systems modernization efforts, which includes improvements for approximately 1,200 business systems and about \$6.8 billion in approved funding for fiscal year 2013.<sup>49</sup> However, we found that the department was not able to effectively implement key components of its business systems modernization program, strategic planning activities, and other efforts, in part because Office of the DCMO personnel did not have the necessary skills to do so. Therefore, we recommended that the Secretary of Defense direct the DCMO to develop a skills inventory, needs assessment, gap analysis, and plan to address identified gaps as part of a strategic approach to human capital planning for the Office of the DCMO. DOD did not concur with our recommendation and stated that the Office of the DCMO is a relatively small component of the Office of the Secretary of Defense and that we had directed the office to undertake a level of activity normally designed for an entire agency.

While we recognized that the office was a relatively small component of DOD, as we concluded, the success of any program depends on effectively leveraging people to achieve defined outcomes and results. Further, the Office of the DCMO continues to face challenges in, among other things, monitoring the progress of its business transformation efforts. The Office of the DCMO's reorganization provided an opportunity for officials to undertake a more complete assessment of the skills and

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<sup>47</sup>10 U.S.C. § 115b.

<sup>48</sup>See GAO, *Human Capital: DOD Should Fully Develop Its Civilian Workforce to Aid Decision Makers*, [GAO-14-565](#) (Washington, D.C.: July 9, 2014).

<sup>49</sup>See GAO, *DOD Business Systems Modernization: Further Actions Needed to Address Challenges and Improve Accountability*, [GAO-13-557](#) (Washington, D.C.: May 17, 2013).

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competencies of the office's personnel. However, officials in the Office of the DCMO did not take advantage of this opportunity, although they stated to us that a more detailed assessment of the skills and competencies would likely be needed at some time in the future. Implementing our May 2013 recommendation would help ensure that its personnel are appropriately sized and have the right mix of skills and competencies to effectively monitor its business transformation efforts.

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## Conclusions

Long-standing management weaknesses related to DOD's business functions hinder the department's ability to address higher-priority needs. While DOD has taken some steps to address business transformation weaknesses, the CMO and DCMO have not consistently applied leading performance management practices for federal agencies to document and communicate business transformation priorities or overseen the development of a corrective action plan, or set thereof, that outlines root causes and solutions to address them. Documenting and communicating priorities along with overseeing the development of a corrective action plan will better position DOD to fulfill its mission with greater efficiency and effectiveness. In addition, the Office of the DCMO has not implemented effective mechanisms to monitor the progress of DOD's business transformation efforts. Additionally, the performance measures DOD currently uses lack key attributes of successful performance measures, including not being linked to its overall strategic plan. Developing clear, comprehensive performance measures that align with DOD's strategic goals could help DOD to assess department-wide progress against its business goals and clarify what additional steps decision makers need to take to carry out effective oversight. Further, we continue to believe that fully assessing the skills and competencies of its personnel—as we recommended in May 2013—will allow the Office of the DCMO to more effectively monitor the progress of its business transformation efforts. Without taking these steps, including implementing our May 2013 recommendation, DOD will be hindered in addressing its long-standing weaknesses or achieving expected business transformation outcomes. Once these actions are taken, DOD will be better positioned to demonstrate the sustainable progress needed in its approach to business transformation to meet the criteria for removal from GAO's High-Risk List.

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## Recommendations for Executive Action

We are making three recommendations to help DOD increase the efficiency and effectiveness of its management of its business operations.

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To enhance DOD's ability to achieve its business transformation efforts, we recommend that the Secretary of Defense direct the Deputy Secretary of Defense, in his capacity as the CMO, to ensure that the DCMO takes the following two actions:

- document business transformation priorities and communicate these priorities to officials responsible for DOD's business functions; and
- oversee the development of a corrective action plan, in coordination with officials responsible for DOD business functions, that outlines the root causes for business transformation weaknesses and the solutions needed to address those weaknesses.

To enhance DOD's ability to monitor the progress of its business transformation efforts, we recommend that the Secretary of Defense direct the Office of the DCMO to, in coordination with officials responsible for DOD's business functions, develop performance measures that reflect key attributes of successful performance measures, such as clarity, comprehensiveness, and linkage.

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## Agency Comments

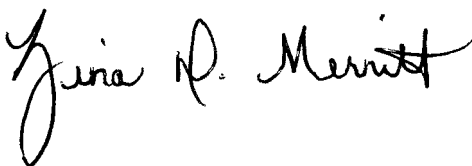
We provided a draft of this report to DOD for review and comment. In written comments, which are reprinted in appendix III, DOD concurred with our recommendations and stated that they look forward to continued cooperation and dialogue toward improving business transformation and performance management throughout the department. DOD also provided technical comments, which were incorporated into this report as appropriate.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Deputy Secretary of Defense, and the Secretary of Homeland Security. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staffs have any questions about this report, please contact me at (202) 512-5257 or [merrittz@gao.gov](mailto:merrittz@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

A handwritten signature in black ink, reading "Zina D. Merritt". The signature is fluid and cursive, with the first name "Zina" being the most prominent.

Zina D. Merritt  
Director  
Defense Capabilities and Management

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*List of Committees*

The Honorable John McCain  
Chairman

The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Mac Thornberry  
Chairman

The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

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# Appendix I: Scope and Methodology

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To determine the extent to which the Department of Defense (DOD) has taken steps to address business transformation weaknesses, we reviewed policies and guidance for Chief Management Officer (CMO) and Deputy Chief Management Officer (DCMO) responsibilities, such as DOD Directive 5105.02, which identifies the responsibilities of the CMO, and Directive 5105.82, which describes those of the DCMO, as well as DOD's Strategic Management Plan, and assessed whether policies and guidance are being implemented. We also identified leading performance management practices for federal agencies established in our prior work and compared those to current practices for DOD's business transformation efforts. We reviewed the charter and agendas of the Defense Business Council (DBC) from calendar years 2013 and 2014 to determine the extent to which the CMO and DCMO discussed performance across DOD's business functions and held officials responsible for DOD's business functions accountable. We selected these two years to provide us with a better understanding on the progress made by DOD since our 2013 review on DOD business transformation. We also met with Office of the DCMO officials to determine the extent to which both the CMO and DCMO have demonstrated leadership commitment and set priorities for business transformation.

Additionally, we researched and identified other agencies that had a CMO or Under Secretary of Management to identify leading practices in implementing these positions. From this, we determined the Department of Homeland Security (DHS) was an appropriate agency to include in our review because it (1) faced similar management challenges to DOD and (2) had an Under Secretary of Management. We examined the extent to which DHS implemented leading performance management practices for federal agencies to narrow the number of issues in its high-risk areas. We also examined leading performance management practices DHS implemented to identify those that may be potentially applicable for DOD. Additionally, we conducted interviews with officials responsible for DHS lines of business as well as its Office of Management Integration, which serves as the lead office within DHS responsible for coordinating management activities, along with tracking performance measurements across all DHS lines of business, among other responsibilities. We did not directly compare DOD to DHS, as the agencies differ in terms of mission, size, and structure, among other characteristics. Instead, we use examples from DHS to highlight efforts that agencies have made to address the criteria for removal from GAO's High-Risk List.

To determine the extent to which the Office of the DCMO has effectively monitored the progress of its business transformation efforts, we

compared the 13 performance measures associated with the Agency Priority Goals listed on [performance.gov](http://performance.gov) to key attributes of successful performance measures for federal agencies that GAO previously established by, among other steps, considering key legislation such as the Government Performance and Results Act of 1993. Of the nine key attributes GAO previously established, we selected the same three attributes used in our February 2013 report to assess DOD's performance measures for its business transformation efforts. We assessed these three attributes to remain consistent with the methodology used in our February 2013 report on DOD's business transformation, and to evaluate the department's progress in addressing its business transformation weaknesses. Following this approach also allowed us to gauge what progress has been made in improving these performance measures since our February 2013 report. While these measures may not cover all key attributes of successful performance, we feel they are important for accurately assessing the strengths and weaknesses of performance. We shared these attributes with Office of the DCMO officials and those responsible for DOD's business function officials, and they agreed that these criteria were appropriate. We also obtained information associated with these measures from and interviewed Office of the DCMO officials and those responsible for DOD's business functions. We compared DOD's performance measures to the three key attributes of successful performance measures we selected. We did so by asking one analyst to assess whether each of the 13 performance measures included the three key attributes we selected based on the description of those attributes from our prior work, and then another analyst verified this assessment. Any discrepancies in the assessment of the two analysts were discussed and addressed by the analysts. In addition, we interviewed Office of the DCMO officials and those responsible for DOD's business functions about their monitoring of business transformation efforts.

We also compared DOD's efforts to assess its capacity to monitor business transformation efforts with GAO's high-risk criteria for removal and our prior work on a leading performance management practices for federal agencies.<sup>1</sup> We did so by asking one analyst to assess whether the

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015). Agencies must meet the following five criteria to be removed from GAO's High-Risk List: (1) a strong commitment to, and top leadership support for, addressing problems; (2) the capacity to address problems; (3) a corrective action plan; (4) a program to monitor corrective measures; and (5) demonstrated progress in implementing corrective measures.



steps DOD had taken to monitor its business transformation efforts met, partially met, or did not meet the monitoring criterion from GAO’s high-risk criteria for removal, and then another analyst verified this assessment. Any discrepancies in the assessment of the two analysts were discussed and addressed by the analysts. Table 2 shows the organizations we visited or contacted during the course of our review.

**Table 2: List of Department of Defense and Department of Homeland Security Organizations We Contacted**

<b>Department of Defense</b>	Office of the Deputy Chief Management Officer
	Office of the Under Secretary of Defense for Acquisition, Technology and Logistics
	Office of the Under Secretary of Defense for Personnel and Readiness
	Office of the Under Secretary of Defense (Comptroller)
	Office of the Chief Information Officer
	Joint Staff, J8 - Acquisition Policy and Process
	Department of the Army, Business Transformation Office
	Department of the Navy, Business Transformation Office
	Department of the Air Force, Business Transformation Office
<b>Department of Homeland Security</b>	Office of Management Integration
	Office of the Chief Information Officer
	Office of Human Capital
	Office of Financial Management

Source: GAO. | GAO-15-213

We conducted this performance audit from December 2013 to February 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Agency Priority Goals and Associated Performance Measures for the Department of Defense

As required by the Government Performance Results Act (GPRA) Modernization Act of 2010, the Department of Defense (DOD) has established four Agency Priority Goals to improve performance and accountability within its organization, improve expected performance outcomes, and drive progress. In addition, specific performance measures have been created to determine how close DOD is toward meeting its priority goals. Table 3 shows DOD’s four Agency Priority Goals and its 13 performance measures, which were outlined on [performance.gov](http://performance.gov).

Table 3: Department of Defense’s (DOD) Agency Priority Goals and Associated Performance Measures Outlined on <a href="http://performance.gov">performance.gov</a>	
Transition to Veterans	<div>1. Verified percent of service members who have separated and attended (a) pre-separation counseling, (b) a Department of Labor Employment workshop, and (c) Veterans Affairs Benefits briefings prior to their separation</div> <div>2. Percent of Service members who meet DOD core Integrated Disability Evaluation System process time and satisfaction goals</div> <div>3. Verified percent of eligible service members who separated and met Career Readiness Standards prior to their separation</div> <div>4. Percent of wounded, ill and injured service members who are enrolled in a service recovery coordination program and have an established and active recovery plan administered by a DOD-trained Recovery Care Coordinator</div>
Improving Energy Performance	<div>5. Cumulative average percent reduction in building energy intensity</div> <div>6. Percentage of renewable energy produced or procured based on DOD’s annual electric energy usage</div>
Reform the DOD Acquisition Process	<div>7. Median cycle time deviation from the previous year for active Major Defense Acquisition Programs (MDAPs) starting in fiscal year 2002 and after</div> <div>8. Average rate of acquisition cost growth from the previous year for MDAPs starting in fiscal year 2002 and after</div> <div>9. Number of MDAP breaches equal to or greater than 15 percent of current Acquisition Program Baseline (APB) unit cost or equal to or greater than 30 percent of original APB unit cost for reasons other than approved changes in quantity</div> <div>10. Percentage of contract obligations that are competitively awarded</div>
DOD Financial Statement Audit Readiness	<div>11. Percent of DOD’s General Funds, Fund Balance with Treasury, validated as audit-ready</div> <div>12. Percent of DOD’s general funds Statement of Budgetary Activity for material Components validated as audit-ready</div> <div>13. Percent of DOD mission-critical assets (Real Property, Military Equipment, General Equipment, Operating Materials and Supplies, and Inventory balances) validated as audit-ready for existence and completeness</div>

Source: [Performance.gov](http://Performance.gov). | GAO-15-213

# Appendix III: Comments from the Department of Defense



**OFFICE OF THE DEPUTY CHIEF MANAGEMENT OFFICER**  
9010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-9010

February 6, 2015

Ms. Zina Merritt  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548-0001

Dear Ms. Merritt:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report GAO-15-213, "DEFENSE BUSINESS TRANSFORMATION: DoD Has Taken Some Steps to Address Weaknesses but Additional Actions Are Needed," dated January 23, 2015 (GAO Code 351883). GAO recommended that the Secretary of Defense direct the Deputy Secretary of Defense, in his capacity as the Chief Management Officer (CMO), to ensure that the Deputy CMO takes the following three actions:

- Document business transformation priorities and communicate these priorities to officials responsible for DoD's business functions.
- Oversee the development of a corrective action plan, with officials responsible for DoD business functions, that outlines the root causes for business transformation weaknesses and solutions needed to address those weaknesses.
- In coordination with officials responsible for DoD's business functions, develop performance measures that reflect key attributes of successful performance measures, such as clarity, comprehensiveness, and linkage.

The Department concurs with each of the draft report recommendations and appreciates the opportunity to respond to your draft report. We look forward to your continued cooperation and dialog toward our common goal of improving business transformation and performance management throughout the DoD.

Should you have any questions, [REDACTED]

Sincerely,

[REDACTED] Digitally signed by  
[REDACTED] Date: 2015.02.06 16:44:42 -05'00'

David Tillotson III  
Assistant Deputy Chief Management Officer

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Zina D. Merritt, (202) 512-5257 or [merrittz@gao.gov](mailto:merrittz@gao.gov).

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## Staff Acknowledgments

In addition to the contact named above, Tina Won Sherman (Assistant Director), Tracy Barnes, Elizabeth Curda, Timothy DiNapoli, Gina Flacco, Michael Holland, Mary Catherine Hult, Jason Jackson, James Kernen, Asif Khan, Joanne Landesman, Lisa McMillen, Richard Powelson, Ophelia Robinson, Kathleen Sharkey, Michael Silver, and Amie Lesser made key contributions to this report.

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